MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BFN3084 – INTERNATIONAL FINANCE

(All sections / Groups)

14th MARCH 2018
9 a.m. – 11 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Questions paper consists of 2 pages with 4 Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1 (25 MARKS)

a. Describe the translation process of temporal method. **(5 marks)**

b. Define Interest Rate Parity (IRP) and explain what would happen if IRP does not hold. **(5 marks)**

c. Annie can borrows as much as $1,600,000 or £1,000,000. A dealer told Annie that the spot exchange rate is $1.60/£ and the three-month forward exchange rate is $1.65/£. The three-month interest rate is 6.0% per annum in the U.S. and 4% per annum in the U.K.

i. Determine whether the interest rate parity is currently holding. **(5 marks)**

ii. If the IRP is not holding, how would you carry out covered interest arbitrage? Show all the steps and determine the arbitrage profit. **(10 marks)**

QUESTION 2 (25 MARKS)

a. Given the following information, what are the MYR/SGD currency against currency bid-ask quotations?

Bank Quotations	European Terms		American Terms	
	Bid	Ask	Bid	Ask
Malaysian ringgit	4.2000	4.3000	0.2326	0.2381
Singapore dollar	1.3600	1.4000	0.7143	0.7353

(8 marks)

b. Assume you are a trader with China Bank. From the quote screen on your computer terminal, you notice that Maybank is quoting RM4.340/$1.00 and CIMB Bank is offering SGD1.350/$1.00. You learn that Public Bank is making a direct market between Malaysian ringgit and Singapore dollar, with a current RM/SGD quote of 3.250. Show how you can make a triangular arbitrage profit by trading at these prices. Assume you have $1,000,000 with which to conduct the arbitrage. What RM/SGD price will eliminate triangular arbitrage?

(17 marks)

Continued...

QUESTION 3 (25 MARKS)

a. Briefly discuss the various types of countertrade. **(20 marks)**

b. What are the criteria for a 'good' international monetary system? **(5 marks)**

QUESTION 4 (25 MARKS)

a. A Japanese multinational company manufactures boats and has affiliates in Malaysia, Indonesia and Vietnam. Total receipts and disbursement are in millions USD.

	Disbursement by:				TOTAL RECEIPT ('$000)
Receipts by:	Japan	Malaysia	Indonesia	Vietnam	
Japan	-	35	40	65	140
Malaysia	25	-	15	45	85
Indonesia	15	25	-	35	75
Vietnam	45	35	35	-	115
TOTAL DISBURSEMENT ('$000)	85	95	90	145	415

Show the original, bilateral and multilateral netting (in separate diagram) for this transaction. **(19 marks)**

b. Discuss the **THREE (3)** basic documents in a typical foreign trade transaction. **(6 marks)**

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